STATEMENT OF PETROLEUM INDUSTRY RESEARCH FOUNDATION, INC. (PIRINC) PRESENTED BY JOHN H. LICHTBLAU, RESEARCH DIRECTOR, BEFORE THE SPECIAL SUBCOMMITTEE ON OIL IMPORTS OF THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS, U.S. HOUSE OF REPRESENTATIVES, MAY 13–16, 1968

Few policies of the Federal government have been the subject of more controversy than the mandatory Oil Import Control Program in existence since 1959. The reasons for this controversy are manifold. One factor is that both the cost of the import restrictions to consumers of oil and the benefit of the restrictions to the domestic producers of this commodity are truly gigantic. With the exception of residual fuel oil whose importation is more or less unrestricted, the control program has largely insulated the U.S. oil business from foreign competition. As a result every major oil product sold in the U.S. is significantly more expensive than it would be in the absence of the federal import controls. Estimates of the total cost of the controls to the American consumer vary from $3 to $4 billion per year, depending on the assumptions made regarding the penetration of foreign oil into the U.S. market under conditions of free entry. The benefits of the import controls to U.S. oil producers are of course on the same order as the cost to consumers.

Overriding both of these is the significance of the restrictions to the U.S. national security—the sole reason for their imposition and continuation. It would be difficult to assign a dollar value to the national security benefit of the oil import restrictions. However, we can say that, everything else being equal, in the world we live in domestic oil is safer than foreign oil and oil coming in overland from adjacent countries is safer than oil brought in from overseas, from the point of view of our national security. We have seen a clear demonstration of this principle during the Middle East crisis of last summer when Western Europe and Japan came dangerously close to a serious oil shortage while we replaced our own import fallout with ease and were even in a position to export substantial quantities of oil to Europe throughout the emergency. In the absence of the imports restrictions the oil aspect of the Middle East crisis would undoubtedly have been a matter of major domestic concern for us. In addition, our import dependency would probably have aggravated the scope of the potential oil shortage for Europe and Japan.

Thus, we do have tangible evidence of the benefit of U.S. import controls. But it should never be forgotten that the cost of these benefits to U.S. consumers is extremely high and has been rising since 1959 as U.S. and foreign oil prices have tended to move in opposite directions.

On the West Coast (District V) total oil imports have been declining in the last several years, both in actual volume and as a share of total demand. This is in accordance with the import formula for that area. In the rest of the country (District I–IV) imports—except for residual fuel oil—have been held to the ratio of 12.2% of the estimated domestic crude and natural gas liquids production in that part of the country. Since 1960 actual oil imports in District I–IV have never varied from that ratio by more than a small fraction of 1%. Thus, the government has successfully held the line on total oil imports throughout the existence of the Control Program.

But the figure of 12.2% is not a magic number, necessarily superior to any other. It was adopted as a matter of practical policy to maintain the status quo on U.S. oil imports and as long as it is desirable to continue maintaining the status quo the 12.2% ratio is a useful tool. But we do not believe it should be accorded the force of law, as has been advocated by spokesmen of some domestic oil producers. For the time may come, when we will have to liberalize our oil import policy to prevent the cost of the program from becoming oppressive relative to its benefits.

We would now like to address ourselves briefly to the distribution of oil imports within the 12.2% limit. It is this aspect of the imports program, rather than the overall volume of foreign oil entering the U.S., which has drawn most of the criticism and controversy in the last couple of years. A few statistics will illustrate the reason. In the first half of 1960, total imports, other than residual fuel oil, into Districts I–IV amounted to 847,000 barrels daily. In the first half of 1968 comparable imports will amount to 1.1 million barrels daily, an increase of nearly 30%. Yet, during the same period crude and unfinished oil imports allocated to companies classified as refiners in Districts I–IV declined from 719,000 barrels daily to 592,000 barrels daily—a drop of 18%.